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Message Text

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ACTION EB-06

INFO OCT-01 EA-10 ISO-00 AGR-10 CIAE-00 INR-07 LAB-03

NSAE-00 RSC-01 SP-02 STR-04 TRSE-00 SWF-01 CIEP-02

FRB-01 OMB-01 /049 W
---------- 088579
R 130905Z NOV 74
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 5274
USDOC WASHDC
INFO AMEMBASSY MANILA
AMEMBASSY SINGAPORE
AMCONSUL MEDAN
AMCONSUL SURABAYA

UNCLAS JAKARTA 13819

EO 11652: N/A
TAGS: EFIN EPAP EALR ID
SUBJ: GOI COMMODITY PRICE POLICY: CHANGES IN
SUGAR PRICE AND SUBSIDY

REF: A. STATE 249380 (NOTAL)
B. SURABAYA 0532(NOTAL)

1. SUMMARY. INDONESIA FACES BOTH GROWING DEFICIT IN SUGAR PRODUCTION AND RAPIDLY MOUNTING BUDGETARY DRAIN FOR SUGAR IMPORT SUBSIDIES. TO REDUCE HIGH SUBSIDY BURDEN AND STIMULATE PRODUCTION, GOVERNMENT ANNOUNCED MODEST INCREASE IN DOMESTIC PRICE CEILINGS, COUPLED WITH SELECTIVE INCENTIVES FOR INVESTMENT IN SUGAR PRODUCTION PARTICULARLY OUTSIDE JAVA FOR BOTH DOMESTIC CONSUMPTION AND EXPORT.
END SUMMARY

2. ON NOVEMBER 5 INDONESIAN GOVERNMENT ANNOUNCED 21 PCT INCREASE IN OFFIICL WHOLESALE PRICE OF SUGAR TO RP 135.5 PER KILO FROM RP 112. CEILING ON
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RETAIL SUGAR PRICE RAISED FROM RP 140 TO RP 170

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/KILO. NEW MAXIMUM WHOLESALE PRICE, EQUIVALENT TO
$326 PER METRIC TON, COMPARES WITH PRESENT NY
MARKET PRICE OF ABOUT $1,150 PER METRIC TON
FOB AND ROUGHLY $1,300 CIF JAKARTA. (NY
PRICE REAR AGO WAS $250 PER MR)

3. AS REASONS FOR CHANGE, GOVERNMENTANNOUNCED
DESIRE TO DECREASE SUBSIDIES AND INCREASE IN-
CENTIVES TO PRODUCERS. INDONESIA NOW REQUIRES
200-300,000 TONS PER YEAR(TPY) OF IMPORTS
TO MEET 1.3 MILLION TPY CONSUMPTION REQUIREMENT.
PRODUCTION HAS FALLEN SHORT AS CONSUMPTION
INCREASED FROM 6.5 TO 10 KG PER CAPITA PER YEAR
IN RECENT YEARS. ANNOUNCEMENT SUGGESTED THAT PRICE
INCREASE WOULD AFFECT PRIMARLY THOSE BEST ABLE
TO PAY,I.E. SOFT-DRINK, CANDY AND BAKERY GOODS
CONSUMERS.

4. GOVERNMENT ALSO ANNOUNCED INDUCEMENTS,
INCLUDING SPECIAL INCENTIVES TO FOREIGN INVESTORS,
FOR DEVELOPMENT OF SUGAR PRODUCTION OUTSIDE OF
JAVA. WHILE NOT DESCRIBED IN ANNOUNCEMENTS,
EMBASSY UNDERSTANDS THAT GOI PLANS WILL ASSURE
INVESTORS IN MAJOR SUGAR PRODUCTION OUTSIDE JAVA
FULL WORLD PRICE FOR ALL SUGAR PRODUCED
UP TO POINT WHERE DOMESTIC SUGAR REQUIREMENTS
ARE SATISFIED, AND AUTHORIZE INVESTOR EXPORT OF
SUGAR BEYOND THAT LEVEL. IN ADDITION, REGULAR
TAX AND OTHER INVESTMENT INCENTIVES ALSO APPLY.

5. COMMENT: BASED ON GOVERNMENT ESTIMATE OF
IMPORT VOLUMES REQUIRED AND C&F COST OF SUGAR
TO JAKARTA OF $1,300 GOI PRESENTLY FACES ANNUAL
SUBSIDY COST OF $195-290 MILLION, OR 3-5 PERCENT
OF TOTAL GOVERNMENT REVENUES FOR SUGAR ALONE.
(RICE, FERTILIZER AND OTHER COMMODITY SUBSIDIES
ADD SOME $800 MILLION MORE TO SUBSIDY BURDEN).
THIS DECISION ON SUGAR WOULD SAVE ONLY $11-17
MILLION IN SUBSIDIES.

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6. DECISION APPEARS MORE IMPORTANT AS DESIRABLE
STEP TOWARD IMPROVING STIMULUS TO PRODUCTION IN
NATION WHICH USED TO BE MAJOR SUGAR EXPORTER.
DECISION CALLS ATTENTION TO REMAINING MAJOR
DISTORTIONS BETWEEN DOMESTIC AND WORLD MARKET
PRICES. GOI EFFORTS TO COUNTER INFLATION DEPEND
HEAVILY ON ADMINISTERED PRICES FOR ESSENTIAL
COMMODITIES SUPPORTED BY MARKET INJECTIONS OF

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IMPORTS AT SUBSIDIZED PRICE LEVELS WHICH HAVE LAGGED INCREASINGLY BEHIND WORLD MARKET PRICES.

7. TOUGHEST TEST OF GOVERNMENT BALANCE BETWEEN PRICE STABILIZATION AND RURAL SECTOR DEVELOPMENT IS POLICY CHOICE IT FACES ON RICE PRICE ADJUSTMENTS. WORLD RICE PRICES REMAIN PERSISTENTLY AT LEVELS ROUGHLY DOUBLE THOSE OF INDONESIAN WHOLESALE RICE PRICE OVER PAST NINE MONTHS, AGGRAVATING GOVERNMENT'S CHOICE BETWEEN STIMULATING PRODUCTION AND RESTRAINING INFLATION. (FOR FURTHER ASPECT OF GOVERNMENT'S COMMODITY PRICE DILEMMA, SEE SEPTEL ON NEW GOVERNMENT SUBSIDY FOR RAW COTTON IMPORTS).
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